Resource Report 4:
Literature review on home-based entrepreneurs

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in Association with CSIR Built Environment

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Final Reports:

Research Report: Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs (April 2006)

Small Scale Landlords: Research Findings and Recommendations (3 May 2006)

Home Based Entrepreneurs: Research Findings and Recommendations (to be released in July 2006)

Resource Reports

Literature Review

Resource Report 1: Literature review of Small Scale Landlords (6 February 2006)

Resource Report 2: Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks. (6 February 2006)

Resource Report 3: Literature review on entrepreneurship, housing and housing finance (6 February 2006)

Resource Report 4: Literature review on Home Based Entrepreneurs (6 February 2006)

Small Scale Landlords

Resource Report 5: Research into Landlords in Inner Cities (6 February 2006)

Resource Report 6: Research into Landlords in Townships (6 February 2006)

Resource Report 7: Research into Successful Landlords (6 February 2006)

Resource Report 8: Research into Service Providers in respect of Small Scale Landlords (6 February 2006)

Resource Report 9: Research into Public Sector Stock (6 February 2006)

Home Based Entrepreneurs

Resource Report 10: Research into Home Based Entrepreneurs (6 February 2006)

Resource Report 11: Research into Successful Entrepreneurs (6 February 2006)

Resource Report 12: Research into Service Providers in respect of Entrepreneurs (6 February 2006)

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1 Introduction

1.1 Background

Finmark Trust, the Social Housing Foundation, Nedbank and the Gauteng Department of Housing have appointed Shisaka Development Management Services in association with the CSIR to undertake research into 'Housing Entrepreneurs'. Housing Entrepreneurs are defined as small scale landlords and entrepreneurs who operate or use their house as part of their business activities.

The purpose of the research is to understand **how housing and housing finance can be used as a tool to promote the emergence and growth of entrepreneurs and small scale landlords**. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
- Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock**.
- Understanding the key issues which would support a **productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.
- Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords**, such as are already being realised in the middle and upper income sector of South Africa.

This report forms part of Phase 1 of the research and comprises a literature review of home based entrepreneurs. International and national literature was reviewed through an Internet search, as well as documentation provided by professionals in the development sector.

1.2 Focus of the review

Home-based entrepreneurs are understood to be a sub-sector of the broader category of entrepreneurs operating in housing, or using housing to the benefit of their entrepreneurial activity [A broader review of entrepreneurship is detailed in Resource Report 3]. Renting rooms is a special case of a service that is provided by home or building owners or occupants, and in that it is the focus of another part of this study [see Resource Report 1] it is excluded from this review. This review focuses on **income generating activity that takes place in the home or uses the home as a base to work from.**

The purpose of this review is to discuss the literature on **home-based enterprises in order to inform the broader study.**

1.3 Definitions and commentary

Home-based enterprises (HBEs) are **income generating activities undertaken by residents of housing using the home as a base.** In low income areas in South Africa they are **predominantly informal in nature and survivalist in scale**. For the sake of scoping the investigation, HBEs are activities in which **an important part of the entrepreneurial process takes place in the home or on the residential plot**. Depending on their nature, activities may be predominantly:

- **Service oriented** (e.g. hair salons, mechanics, traditional healers, taxi owners, shebeen operators)
- **Retail oriented** (e.g. spaza shops, frozen food retailers)
- **Production oriented** (e.g. fence and gate manufacturers, clothes makers, preparing food),
- **or a mixture of these** (e.g. traditional healers who make medicines, see patients, and even accommodate patients on the residential plot).

For this investigation these activities will be researched as they occur in a sample of township and inner city areas in Gauteng.

It is generally recognised that a home based entrepreneurial activity is **largely informal in nature** – at least in the developing country situation. The ILO considered "the most usual definition of the informal sector as revolving around its unregistered and unregulated character, as well as its normally small-scale, highly competitive environment and often local character" (quoted in Cross et al, 2001b).

Hennon, Loker and Walker (2000) define home-based employment broadly as including "work done for income in one's home, on one's premises, or emanating from the home/premises with the worker's having no office or consistent workshop elsewhere".

Tipple notes that home-based enterprises (HBEs) are an accepted component in the informal sector in rapidly developing cities, however he goes on to comment that this is often in spite of the bad press that they generally receive through a concentration on the exploitation evident in some piece-rate homework practices. Their general nature conforms to being **small with low-operator incomes, informal labour relations and a usual lack of separation of production and consumption**. In spite of the incomes being low these types of activity play a major role in poverty alleviation and although few skills are required for their operation they appear to be able in many cases to compete effectively internationally (Tipple, 2005a).

An earlier study also conducted by Tipple found that HBEs increase household income substantially and provide a range of services, such as local shops, that should be regarded as essential for low-income households (Tipple 2004). Gough and Napier concur by citing the importance of HBEs to the local economy in Africa in their study and comparison of this activity in Accra (Ghana) and Pretoria (RSA): they note that as formal sector employment becomes an increasingly remote prospect for many Africans, the importance of informal income-generating activities which operate from the home is being increasingly recognised (Gough, Tipple and Napier, 2003).

The importance of HBEs both to the informal sector and the role that they play in the broader economy is thus established. In spite of their survivalist nature in developing countries they commonly provide the only source of income to households and should not be discounted simply because they appear to generate minimal incomes.

Rather it is the intention of this paper to outline the key issues that appear to define the relationship between small and micro businesses and the shelter/dwelling, where they are located, and how this can be strengthened and supported so that benefits to both the business and the house can accrue to the small operator.

As will be seen HBEs are not limited to the small-scale nor to the developing country context. On the contrary, experiences in the UK, where one out of every ten British employers use a home-based worker; and where it was predicted by the Henley Centre, a London based international consumer consultancy, that by 2006 some 30% of British workers would be home-based (other researchers estimate that this figure will be closer to 50% of all workers), point to the potential and necessity of this economic activity (Smith, 2000). Similar findings resulted from studies of HBEs in the USA and Australia (see section 0 below).

In the international literature home-based enterprises are classified in a variety of ways. Appendix A is an extract from a DFID report on home-based enterprises which outlines the international classifications that are used.

The themes which are emphasised in the housing literature include the relationship between the following aspects:

- tenure type and HBE activity,
- location in city and within settlement and HBE activity
- length of time in house or settlement and HBE activity
- housing type (including, material, size, etc) and HBE activity
- amount of individual input into the house and HBE activity
- infrastructure and HBE activity

Within this there is discussion of how these factors have combined impacts on whether people move house or upgrade their houses, how people view their houses (as shelter or as a business), and how space is added for the purposes of accommodating income generating activities.

More broadly the following relationships are investigated and discussed:

- home work and the informal sector (including the contribution of home businesses to the economy),
- home work and the formal sector (including outsourcing by formal concerns, and the relationship in livelihood strategies between formal and informal income earning),
- poverty alleviation and entrepreneurial activity, and
- housing production (and productive housing) and employment (see comprehensive discussion in UNCHS/ ILO, 1995).

Important issues here are whether people become involved in entrepreneurial activities because of losing employment in the formal sector (or some other inability of the formal sector to employ them), or because they choose to do so for some perceived advantage of home work over other forms of employment, and whether people use credit and other forms of support (e.g. small business training) to enhance their enterprises

1.4 Conceptual framework

The issues discussed above can be organised into a simple diagram of issues which itemises the various factors affecting entrepreneurs who are operating home-based enterprises. The framework views the home businesses as processes which require inputs and lead to outputs, and which then have impacts (social, economic and ecological). The three main components are:

- the house which, in this study, is seen as the premises for the business and, at times, as some kind of security for accessing credit, or as playing a role in the mode of production;
- the work, or the entrepreneurial activity which generates income of some kind; and
- the entrepreneur, or operator of the HBE, who functions in relationship to customers and employees or family members who assist.

The house (with its own qualities of internal and external space, levels of service, and its meaning to the occupants and customers) is located in a neighbourhood and an urban context with its variety of infrastructure which enhances or undermines the entrepreneurial activity. Often a lack of infrastructure leads to opportunities for particular types of entrepreneurial activity.

The entrepreneur (with their respective levels of business knowledge, education, skills etc.) operates in a household and a community (or, indeed, outside of their home community), and uses their relationships and networks to advance their interests (i.e. social capital). The business itself operates in this physical/ social context.

Added to the context are the macro-economic conditions, the regulatory and legislative frameworks, the availability of finance, the availability of knowledge and technology, and the other constraining or enabling externalities which are often not adequately understood in each context.

Essentially this conceptual framework simply supplies a checklist of factors and interrelationships which can be used to understand any given set of circumstances in which an operator is undertaking a business. At least two other dimensions can be added:

- the time dimension in which home, work and entrepreneur change in nature over time to adapt to conditions (and in which businesses fail and succeed for a variety of reasons);
- and the relationship between one operator and other competing operators in a locality .

This sets up the relative advantage of various types of business operating in competition to one another (see Syman, 1990) and their respective niche markets (or lack of a market in cases of failure).

The scale and viability of HBEs can also be viewed (and measured) through a combination of factors including:

- Turnover/ profit,
- The number of people employed (depending on the type of enterprise),
- Whether the operator has the equipment needed to operate successfully,
- Whether there is significant stock purchased,
- Number and dependability of customers,
- Duration that the business has been operating,
- Use of and dependence on credit,

- Skills and knowledge accessible to the main operator and employees,
- competitiveness and distinctiveness relative to other operators,
- backward and forward linkages into the formal sector and other parts of the informal sector, and
- quality of the built accommodation in which the business operated.
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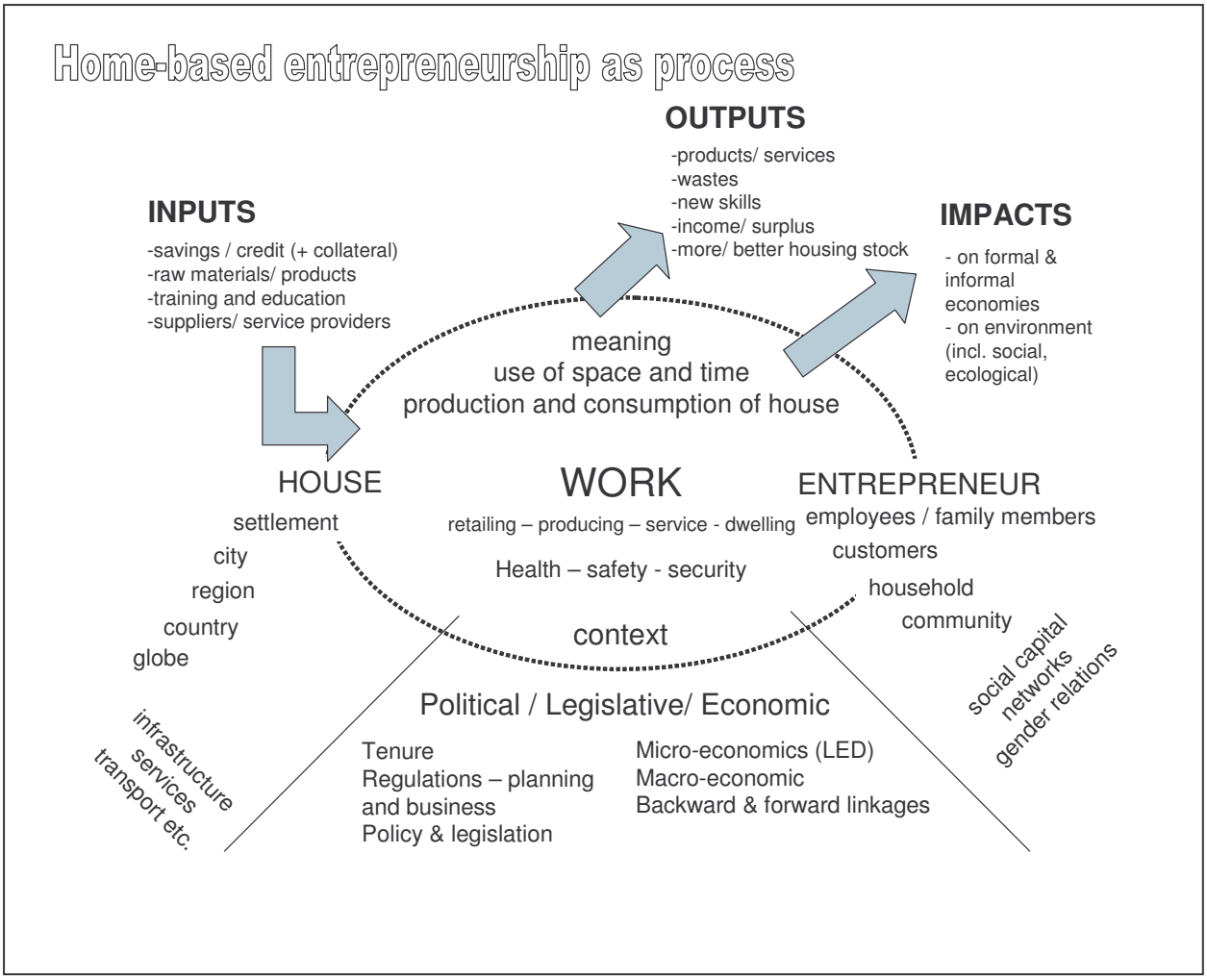

Figure 1: Home Based Entrepreneurship as process

Below a certain point, a combination of these factors would mean that some home enterprises could be described as 'survivalist'. This should not be equated with non-viable, but essentially means that the enterprise in its current form is only contributing to the basic needs of the household involved without going beyond that in scale or profitability so as to significantly improve the quality of life of the household. It is demonstrated in case studies below that such survivalist enterprises at some stage begin to contribute towards the forms of capital that a household needs to assemble in order to go beyond merely surviving.

2 Urban location in SA as a factor

The urban residential setting in which home-based enterprises take place is key in understanding the current patterns of entrepreneurial activity. Therefore the outline of historical origins, although well known, is worth briefly documenting as a key external factor in shaping entrepreneurial activity.

A defining characteristic of South African urban settlements is whether there has been government housing intervention or not. From the 1950s until the 1970s, the conventional form of intervention was for the government to mass build township houses for rent. In the new dispensation, State intervention comes in the form of a housing subsidy to needy households qualifying in terms of South African residence, number of dependants and low household income. The growth of inner city, multi-storey, rented accommodation in the 1950s in many South African cities has also set the scene, with more recent but limited interventions in the inner city through the government institutional subsidy.

As a lingering legacy of past planning practices, different parts of the city are zoned in different ways, and thus different sets of regulations and by-laws pertain to them. This is certainly the case with regulations governing home-based enterprises (see below) although most South African cities and towns are in the process of drafting, or have already drafted, new regulations governing the use of housing which give more consistent rights to all urban residents.

In the South African setting, settlements are therefore defined according to the level and type of housing intervention that has taken place. The level of servicing in each settlement type has a direct impact on HBEs (Napier, Ballance, and Macozoma, 2000). The type and density of housing as it defines the quality and amount of space available for domestic and commercial use also has an effect. The population density and profile will define the local market for HBEs. The location of settlements in the city and their integration into transport networks is likely to have an impact on HBEs.

The proximity of other facilities such as large food retailers (supermarkets) and other formal services are also likely to have an impact on the type of HBEs that are sustainable in residential settlements.

This is likely to determine the potential market that HBEs have in settlements (e.g. Spaza shops being able to sell small quantities of goods at slightly higher prices) and on the types of secondary informal enterprises that are penetrated by formal concerns (e.g. outworking). More distal factors such as changes in legislation (new rights enshrined in the constitution), changes in political leadership and the resultant changes in rhetoric, changes in the economy, changes in society such as different attitudes to the roles and identities of women and men, are all significant in the way that people do business in the informal economy.

Certainly from speaking to people about their experiences in starting and running home-based enterprises, what the researcher would likely abstract away into distal causes are seamlessly woven into explanations of why people do what they are doing (see Napier and Mothwa, 2001). Women in Mamelodi, Pretoria, have said that under the new government with new constitutional rights they feel more free to take control of their own lives and economic activities; a feeling contrasted to their own experiences of life under an oppressive regime (described both as the national regime and an oppressive system translated down to household level). More of this type of evidence showing the importance of setting, in its widest sense, is likely to emerge from the qualitative research on HBEs.

The recent swing in government thinking towards a concern about the quality of houses (including the size and location) rather than only the quantities being produced, is probably motivated by a growing concern about the social and economic impacts of the kind of housing which has predominantly been produced during the first decade of the programme. Along with this, the lack of a functional secondary market means that added attention should be given in government instruments to improving the opportunities for viable entrepreneurial activity through better quality housing, more amenable design, better location and skills development programmes.

In South Africa, the relationship between urban location is historically inextricably linked to what kinds of activities were permitted in regulatory terms. The vestiges of this continue to exist in uneven city management practices. The regulatory framework therefore needs some discussion.

3 The regulatory framework in SA

The regulations governing home-based enterprises, like many other regulations in South Africa, reflect the history of separation that existed in the country for many years. The regulations are duplicated, representing those that were to be used explicitly in areas previously considered to be the whites' only suburbs, and others to be used explicitly in the 'black' townships. **There have been efforts at city level to streamline the regulations into one set that apply to all areas within city boundaries.**

The regulations reviewed here take Pretoria as an example of how regulations affected different parts of the city. In relation to space, the city by-laws which applied to the previously white suburbs were specific on how much space should be used for the home based enterprise and how much space should be used for the home. The regulations clearly allowed for a maximum of 30% only of the gross floor area of the dwelling place to be used for a home business. However if the home business did not have the written consent of the City Council, then this total of 30% could not exceed 60m². The authorities required a plan of the house showing which portion of the dwelling place was to be used for the home undertaking and the total floor area of this portion.

The regulations that were used to regulate home businesses in townships appeared in Act 4 of 1984 of the Township Establishment and Land Use Regulations for Black Communities Development. In the Act of 1984 there were no exact space measurements. Part 8.2 simply stated that :

the occupant of a residential building may practice the social and religious activities and their occupations, professions or trades including retail trade on the property on which such residential building is erected provided that: the dominant use of the property shall remain residential...

Businesses which were permitted were also different. In previously white suburbs, residents could practice their occupations and professions, including retail trade, provided that:

- "the occupation, trade or profession or other activity shall not be noxious; and
- that the occupation, trade or profession shall not interfere with the amenity of the neighbourhood; and in addition,
- no disturbance or pollution through noise, smell, dust, radio-activity, gases or vibrations or other offensive condition, which result in inconvenience to the public is permitted".

On the list of **prohibited trades and enterprises** for white suburban residential properties were the following:
"funeral undertaking, a visitor's information bureau, a building society agency, a bank agency, kennels, an escort agency, a tow in service, an institution, a motor workshop, a car wash, a place of instruction for more than 6 people, a panel beater, a parcel delivery service, a radio control or telephone exchange, a travel agency, a shooting range, a blasting contractor, a butcher or spray painter, a taxi business, a pet salon, a fish fryer, hiring and selling of vehicles, a place of amusement, manufacturing of concrete products, a packaging contractor, a place of refreshment, and a transport undertaking".

If anyone wanted to start a shop on a residential property they were required by the regulations to first get written consent from the relevant authorities. However no reference to this was made in the 1984 Act for Black Communities. This in effect meant that many of the small Spaza shops (selling canned food and cool drinks) according to the regulations used in the suburbs would be illegal, yet when one looks only at the 1984 Act they are not directly referred to and therefore may be looked at as legal.

The Pretoria Municipality made available information to prospective initiators of home enterprises. It was entitled: "Manual: Application for consent for a home undertaking". When applying to establish a home-based enterprise, the regulations required that all the neighbours that might be affected also be informed of the plans to start the business, and that notices of the intention to start the enterprise were clearly displayed.

The neighbours were given 21 days in which to object to the relevant authorities and to give reasons as to why they might object to the intended plans. Supporting locality, site and house plans showing the area devoted to the enterprise were required. The types of businesses countenanced are again outlined, reflecting the same conditions as contained of the zoning by-laws discussed above (Lungu-Mulenga and Napier, 1998).

Rogerson (1991) reviewed the conditions under which home businesses were licensed, which revealed a more detailed picture of when businesses were countenanced in townships. He traces the rise of home-based enterprises in the mid-1980s and says "The process of rethinking conventional shelter wisdom was focused on the neglected interface of 'housing' and 'work' and on the role of the house as a workplace. In turn, this precipitated discussions of the potential for stimulating home-based enterprises of the urban poor" (336). Local studies of HBEs have tended to concentrate mostly on 'spaza' shops as the (apparently) predominant form of HBE. This may be why much of the South African literature views HBEs as survivalist, because there is an insufficient view of other types of production and service activity.

Rogerson makes a link between the activity of retail selling (Spazas) and their premises when he says that they are normally of three kinds: "a garage or out-house purpose-built for informal retailing; a room in a house, often a kitchen, dedicated to retail activity; and a backyard shack, usually constructed of old corrugated iron and wooden planks, used for the enterprise" (337).

Rogerson traces the history of HBEs in South Africa. Given that South African townships had been reduced to virtual dormitories without other economic activity, Rogerson makes this comment of HBEs as early as 1946: "The specific niche occupied by informal spaza retailers was opened by inadequate administrative planning for the provision of formal retail outlets in newly developing township areas". Further to this, inadequate and irregular incomes "...spawned a persistent search for alternative informal income opportunities" (338).

In his account, Rogerson traces the increase in the power of regulations during the apartheid era, the lack of provision for economic activity and the increasing control of personal freedoms etc. He describes the 'draconian' legal restrictions that black traders were subject to, giving credence to the view that HBEs have remained as hidden as possible as a result.

The 1960s saw the continued heavy handed regulation of economic activity, with the policy approach being "to provide only 'temporary trading' facilities for the 'temporary people' of the townships" (339). There was an increase in the numbers of people entering the informal sector in the 1980s because of a combination of "a worsening recessionary economic climate, rising trends of unemployment, and the retrenchment of workers by the formal sector" (339). Further to this formal wages were low and the removal of influx control measures meant even more people needed an informal income.

At the close of the 1980s the regulations were relaxed. HBEs could from 1 January 1989 practice from home but with a licence (and a liquor licence for shebeens), and "must not disturb the amenities of the neighbourhood". This deregulation sparked great optimism about what HBEs could do for the economy.

However, Rogerson comments "Against this favourable growth-oriented picture must be set the reality of most spazas as part of the informal economy of survival in South Africa. For the majority of spaza keepers, entry into the trade was a last resort for household survival in the absence either of formal wage opportunities or of a social welfare safety net to support vulnerable low-income households (most notably, the elderly and women-headed households)" (340).

Rogerson quotes Strassman in stressing the importance of HBEs to the urban economy, but urged that "distinctions should be made between those which are **'most viable and promising from those that are marginal, doomed, and perhaps, exploited.'**" Strassman viewed successful HBEs as those that could "exploit the fungibility of their labour force, of available space and of location" (Strassman, 1986).

Because of his interpretation of most HBEs as survival strategies, Rogerson quotes Strassman and Gilbert as saying that the best approach on the part of authorities is to **stop 'harrassing' HBEs and simply to leave them alone**. This is of course a logical conclusion if indeed they are all survivalist.

Rogerson picked up on five policy recommendations for low income settlements which can be simplified to the following:

- **neighbourhood councils** should regulate dangerous or nuisance HBES;
- **planning regulations** should support mixed use and retail sites in residential areas;
- **infrastructure** (water, electricity, sanitation and roads) should be improved to support HBES;
- **credit and secure tenure** should be extended wherever possible;
- **policy** applying to HBEs should be flexible and responsive to changes in the sector.

Rogerson concludes that home-based enterprises have grown and continue to be important because of the relationship with an, at times, **shrinking formal sector** and because of historical factors concerning the **overt regulation of economic activity** in township areas. "By recognizing the key linkage between shelter and income in poor urban communities, policy towards home enterprise can be geared towards enhancing the absorptive capacity of South Africa's cities, a challenge which will confront the managers of urban settlements during the post-apartheid period" (344).

It has been noted that the **regulatory framework has somewhat overshadowed** the emergence of significant scales and diversities of home-based enterprises in South African townships. This can largely explain the ubiquitous but small scale nature of activities, but the fact that this has continued to be the case in South Africa despite the removal of some of these limits to growth in the 1980s needs to be attributed to other factors.

This becomes evident when comparing the nature of South African home-based activities to those in places like Indonesia, India, Bolivia (Coulson et al, 2001) and Ghana (Gough et al, 2003). In these countries there is a much greater diversity of enterprises, greater emphasis on production

and service enterprises (as opposed to the overwhelming preponderance of retail enterprises in South Africa), with larger numbers of people employed and greater turnovers.

The **operation of businesses from home also relates to people's perceptions of home and of neighbourhood and community**. This is particularly important in the South African context where home, migration histories and experiences of authority have particular historical overtones for the urban poor. This issue as it relates to entrepreneurial activity is treated in detail in "No Place Like Home" (Kellett et al, 2002).

4 Review of home-based enterprise literature

The study of home-based entrepreneurship in South Africa has emphasized the **smaller scale operations which predominate in many township areas** (May and Stavrou, 1990, Rogerson, 1991, Budlender and Theron, 1995, Theron, 1997 and Snyman, 1990).

The estimates of the incidence of HBEs in South African settlements vary widely. Rogerson (1991: 336) estimated that "...home-based enterprises function in at least one in every five households". In another study conducted in settlements where HBEs were more likely to be common, it was found that there were "...at least one home-based worker in seven out of ten households" (Budlender and Theron, 1995). Given that 93% of these people were working within their own homes, this would bring the overall incidence of HBEs in those settlements to 65%. In Durban in the late 1980s, 32% of households in townships and 39% of households in informal settlements were active in the informal sector (May and Stavrou, 1990). This means that a smaller proportion would have been involved in home-based enterprises. In a new, formal settlement in the Pretoria area, after just over a year of occupation, HBE levels were already at 22% (Napier and Lungu Mulenga, 1999). In a well established sites and service scheme near to the case study settlements, another study found that 26% of households had some form of income earning activity (Napier and Lungu Mulenga, 1999) . The findings of the Pretoria HBE study of Mamelodi (Napier et al, 2000) were that 34% of households in an unserviced settlement and 44% of households in a serviced settlement ran some form of home-based enterprise.

The literature review, which emphasises home-based activities and the relationship to the house, the plot and the neighbourhood, revealed several factors and variables that appear to play a key role in determining the existence and operation of HBEs and how successful these might be. These issues are considered in terms of their **physical, social and economic nature**. At all times the dynamic relationship between the HBE and the house is considered as of key importance. This is based on the understanding, as so well put by Gough and Kellett in their research in two Columbian cities, that the “residence has been and continues to be a space of reproduction and production” (Gough and Kellett, 2001).

Their study challenges the myth and "the conceptual separation of work and home, whereby work is treated as a public sphere dominated by men and home as a private sphere run by women" (Gough and Kellett, 2001). Thus the role that the house plays in determining the existence and level of entrepreneurial activity is assessed and presented.

4.1 Physical issues

4.1.1 Size of house

That fact that an important relationship exists between the size of the dwelling, the number of rooms that it has, and the ability to operate a business is explored in detail in the 2002 paper prepared by Sinai entitled "The determinants of the number of rooms occupied by compound dwellers in Kumasi, Ghana" (Sinai 2002). The hypothesis emanating from this study is that **households using their homes for income generation necessarily occupy more rooms** (Sinai 2002).

Contrary to these findings in Africa, experiences in Asia seem to differ: it is apparent that the space requirements and densities that occur in the urban settlements are such that extra rooms for alternative purposes are a luxury that is ill-afforded. The norm seems to be that rooms are cleared of their domestic arrangements during the working hours to accommodate business activities and revert back from this type of use during the sleeping hours. The spatial implications are complex as noted by Tipple in his research in Delhi, and being of an alternative use to domestic purposes, the presence of businesses does take away from the domestic space. Because the evidence demonstrates the significant benefits of operating a business from the home and optimising the space for numerous uses, he suggests that these positive advantages should be supported by improved servicing to enable this to occur more readily. **Tipple proposes that service levels consider measures to increase the dwelling size where possible and where space is very scarce as it is assumed that upgrading will improve HBE activity** (Tipple, 2004).

4.1.2 Stage of house – type of house construction

Gough and Kellett in their (Colombian) investigation of the link between how consolidated the house was and the degree of HBE activity that was prevalent, found a **direct relationship** (Gough and Kellett 2001). They note a **symbiotic relationship between improved houses and income generation:** in the self-help settlements that they investigated they found 20 – 30% of all households supported HBEs; the greater the degree of housing consolidation from a shack constructed from temporary materials to a completed house of brick and/or block construction with an asbestos cement roof, metal doors and windows and bars, the greater the prevalence of HBEs. They go on to note that the purpose of the temporary structures is to consolidate these into permanent structures in an incremental manner using household savings as loans to consolidate are minimal and difficult to secure for a range of reasons. Others have shown that investment in housing in government or donor supported settlements can lead to over-capitalisation (Gilbert, 1999), i.e. that the house cannot be sold for a price which represents the amount of investment which had accrued. The ability of the house to form the base for business activities then becomes increasingly important as an alternative way in which income can be derived and recovered.

4.1.3 Location of house

Understanding that HBEs provide essential services (such as shops, etc.) for local low-income households, the **location of these activities is important both at the city and the neighbourhood scales.** The lack of these services in the existing peri-urban townships and newly developed housing programmes promotes the potential for this to be exploited by local entrepreneurs who see the gap and attempt to fill it.

That **some sites enjoy a competitive advantage is to be expected**: their location opposite a school entrance, on the corner of a neighbourhood block, or at the intersection of main traffic routes, has an immediate impact on both the success of the selected activity as well as the type of activity that is selected. In addition to tenure (see later), **location was highlighted as one of the more significant factors in categorizing the types of different home-based jobs** and the extent to which transformation was enabled to take place in settlements in Dhaka, Bangladesh (Mahmud 2003). This research investigated the extent to which women were able to self-create jobs by creating working spaces in their homes through the assistance of micro-credit schemes.

The use of housing for income generation significantly **decreases the likelihood that people will move house**, because of the relationship between the business and its location. It was found in Ghana that the location determined the nature and type of business that operated there. It was feared that clients might not follow the business to its new location should it move. Because of this factor, the author proposes that households that use their homes for income-generating purposes are a good target for home improvements (Sinai, 2001).

The location of the land and its structure can significantly affect the ability to support a viable HBE: the seeking out of credit to improve/extend the dwelling to allow the establishment of an HBE is affected by the location and its ability to support a viable business. In Colombia, the location appeared to impact more significantly on the success of HBEs than the market itself: a well-located site that formerly supplied building materials shifted its operation to selling water to wash buses as the settlement consolidated and houses were completed and infrastructure (water supply) came on stream (Gough and Kellett, 2001).

4.1.4 Level of infrastructure

Access to electricity, water and other services has a marked impact on the type of HBE activity as well as its viability. However a lack of these likewise provides **a gap for an enterprising individual to operate** for example cold storage facilities independently and provide a needed local service. Similarly many an entrepreneur operates successful tele-communication services from their dwellings, etc. However, more often than not the lack of services generally is **a hindrance rather than an enabler** to enterprise and improved living conditions. In Columbia the researchers were investigating the degree of housing consolidation and noting its impact on the level of infrastructure. As this improved it was seen to have a major impact on the type of home-based enterprise that operated. The access to electricity allowed one individual to "acquire a small electric oven and operate a small bakery in the house of his aunt" (Gough and Kellett, 2001: 242): this was in spite of it being an illegal connection that served the electrical supply.

This study went on to note the linkage between access to sanitation and appropriate child-minding facilities which allowed targeted interventions to a particular group and activity. Home improvement loans for "community mothers" to operate nurseries from home were established

which enabled them to construct appropriate toilets for small children at their dwellings (Gough and Kellett, 2001).

In the Mamelodi study, a formal settlement with water, sanitation and electricity in each dwelling was compared to a neighbouring settlement which had only shared water, and rudimentary sanitation. The profile of businesses differed significantly as a result of the barriers to business imposed by a lack of services but also the market opportunities that low service levels offered. In fact, household incomes from HBEs in the unserviced neighbourhood were on average higher than in the serviced area (Coulson et al 2001).

4.1.5 Type of tenure

The type of tenure impacts on the ability of HBEs to function successfully. Renting rooms to others is a special form of housing income generation as it assumes some form of ownership right (Sinai, 2001). Similarly other investments into the dwelling structure to improve it and enable it to accommodate an additional business venture will be limited if the concept of ownership and security of tenure are not clear (Sinai, 2001). Additional to decisions **to upgrade/extend the dwelling**, tenure and ownership concerns impacted significantly on **decisions to move and relocate the dwelling**, which in turn has implications on creating **viable and consistent local business services.**

The research conducted in Dhaka (Bangladesh) into women and income generation in their homes found that tenure constituted the main factor when this target group was considering the merits and opportunities for HBEs (Mahmud, 2003).

4.1.6 Determinants to improve existing structure or to relocate

Decisions to upgrade/extend the existing dwelling in order to better operate an HBE are determined by different factors. These can include the conditions of the house itself, the type of tenure, the household characteristics and how the householder views the structure – primarily as shelter or as housing that can provide additional sources of income.

These all have implications on policy governing this area and how this could be used to target particular groups so as to create successful and stable settlements. The research in Ghana

conducted by Sinai et al provides a wealth of information regarding housing adjustment (Sinai,2001).

Furthermore, decisions to neither upgrade nor relocate were found to be more prevalent among those home owners who did not operate an HBE. Although this points to a relationship between viewing the house as a business in addition to shelter and a possible conflict existing over space, the literature, albeit limited, seems to promote the notion that the **operating of an HBE creates a possible push factor to improve and upgrade existing structures**, which should be viewed as an benefit (Sinai, 2001).

Common experiences in Mamelodi, Pretoria, were that owners tended to reinvest in an **additional site and structure when the first one was satisfactorily operating**. There were cases where households accessed a government subsidised house and then maintained their previous shack house in order to keep the business going there. Other individuals, such as a traditional healer and a taxi owner, had several houses from which they ran different kinds of businesses (Napier and Mothwa, 2001).

4.1.7 Age of settlement/house

Research in Columbia found that the **longer established the settlement the greater the prevalence of HBE activity** (Gough and Kellett,2001). The highest frequencies were found in the parts of the settlements which were the most consolidated and the oldest.

4.2 Social issues

4.2.1 Household characteristics

Level of education: Investigating micro-enterprises in Nigeria, Ajibefun et al found a **direct relationship between the level of education of enterprise owners and the efficiency of the micro-enterprises** (Abjibefun et al 2003).

Age / gender of enterprise owner: The same study found that the **age of the enterprise likewise impacted on the level of efficiency** (Abjibefun et al 2003).

Regarding gender and the degree of HBE activity, studies in Asia show that women are considered as cheap labour and therefore targeted to use their home-space in the sub-contracting system (Mahmud, 2003).

Similarly in Botswana, the research found **that women experienced more problems than men**. The author maintained that **owing to their reduced demands their requirements were smaller and thus they ran into problems of liquidity and viability**. Furthermore they were limited in their ability to access loans owing to the need to get their husbands to sign off collateral for these loans.

In order to counteract these limitations Kane, in his study for the Foundation for International Community Assistance, notes that **social workers could carve out a role for themselves in supporting micro-enterprises and targeting particular at-risk groups for training and assistance.** Because social workers are responsible for promoting human/social capital by building interpersonal skills and enhancing family and community strengths, the entire realm of micro-enterprise development among their clients could provide new thinking in social welfare (Kane 1996).

The Mamelodi study found that in households where there was an HBE, 40% of male workers and 79% of female workers in the household worked in it. **"HBEs are, therefore, important for providing the majority of employment for the studied households and particularly for the women"** (Coulson et al, 2001). The gender relations which characterised the operation of HBEs were treated in detail in the qualitative part of this study.

Horn (1995) discusses the unionisation of women in the informal sector. The argument is posited that there is an increasing need for a trade union for those who work in the informal sector because changes in the nature of work lead to more casualizaton of labour. Thus, for formal workers to prevent employers from using informal sector workers against them during strikes they will have to build alliances with organized workers in the informal sector.

A necessary condition for such alliances would be the existence of trade unions in both formal and informal sectors. The paper discusses the formation of the Self-employed Women's Union (SEWU) and how it has assisted workers in individual cases.

4.3 Economic issues

There are **two key measures of the scale of enterprises. The one is the number of people employed, and the other is the turnover of the business.**

The Mamelodi study found that between 60% and 64% of home-based enterprises employed **no-one other than the operator.** Of the home-based enterprises that did employ one or more people to help with running the enterprise, 78% of these people were **related to the head of the household**. Only between 6% and 10% of HBEs employed two or more people. The study classified activities as being **retail, service or production related**. It is important to note that 65% of home-based enterprises in the Pretoria study were found to be retail enterprises, as against 23% service, and 12% production. Of all home-based enterprises, 32% were Spaza shops selling a variety of goods or otherwise specialising in particular items such as cigarettes, beers, cold drinks, paraffin or ice blocks (Napier and Mothwa, 2001).

Income data was difficult to gather, particularly when turnover and profit was distinguished. It was however conclusively shown that households with home-based enterprises had **improved their incomes when compared to households which had no enterprises**. Households with HBEs had average monthly incomes of R1 712 as compared to R1 310 in households without businesses. Per capita income was R460 as compared to R451. And average monthly income from the home-based enterprise was R1 092 (Coulson et al, 2001).

4.3.1 Push – pull factors

A key point of discussion in the literature is whether people **freely choose to set up home businesses or whether they are forced into this situation by external circumstances.** In much of the analysis, the description of home-based enterprises by South African researchers has been that they are invariably initiated when people lose formal employment and are involuntarily 'pushed' into the informal sector, rather than as intentional strategies which pull people into home working situations because of the opportunities presented by such arrangements. Cross and

Preston-Whyte (1983) have referred to these as "strategies of maximisation" and "strategies of desperation".

The matter is fully discussed in Napier and Mothwa (2001), but in summary the findings from the Pretoria case study suggested that **around 80% of the people interviewed started businesses because they wanted to, and not because they had no other option**. The most common reasons given were that formal jobs often offered low wages, poor working conditions and the constant threat of redundancy.

A major push factor cited by several authors and most notably by Gough and Kellett in their study of Colombian settlements was the performance of the local economy: a slow-down in the construction industry forced unemployment among males. Similarly it reduced opportunities for women who were mainly employed as domestic workers. **This reduction in the formal and semi-formal sector employment market forced a need to become self-employed, mainly from the home** (Gough and Kellett, 2001).

4.3.2 Access to finance

A survey conducted in Botswana in 1992 **identified the lack of access to credit as a major constraint to the development of non-formal micro-enterprises** (Morewagae et al, 1995). The authors of this study did not focus on HBE activity per se but rather addressed their research to micro-enterprises in general, which they defined as enterprises consisting of less than 10 employees including the owner/operator. A non-formal business was broadly defined as not being registered with the Registrar of Companies in Botswana.

Alongside this identified overriding constraint, other factors hindering development of this sector included the **lack of information generally regarding financing, the lack of collateral and security by the borrower, and the complicated procedures related to the lending industry.**

Recommendations cited by the authors to address these gaps include the need to address **the lack of information** in the low-income sector generally and to women in particular as they constituted the main targets for micro-enterprises; **institutional reform** to assist people to learn how to save prior to borrowing; **sanctions on the borrower** to assure payment, **assistance to the borrower**

to develop viable business proposals, and more appropriate **lending arrangements** – e.g. size of loan, repayment schedule and terms to be more flexible (Morewagae et al, 1995).

Similar findings in Latin America are noted by Korengold in his research regarding small-business loans. This revealed the **benefits of small loans** to "tiny" businesses as they were alternatives to the (informal) money-lenders. **Designing these appropriately** so that they catered for the particular needs of the micro-borrower (in terms of the rates and pay-back periods, etc.), assisted in creating jobs (Korengold, 1991).

The issue of people's experiences of credit in Mamelodi is taken up in more detail below.

4.3.3 Use of income for consolidation

The link between **personal input into the costs of improving and/or extending the dwelling** to enable HBE activity is clearly noted by Gough and Kellett in their study of housing consolidation and home-based income generation in Colombia (Gough and Kellet 2001).

They note that **income generated in the house** remains a prime method to consolidate the dwelling structure. Their findings include a hypothesis that links skills in housing consolidation with those that lead to exploring the potential of maximising the dwelling, which constitutes the largest capital asset the household will have. They question **the cause and effect and dynamic relationship that exists between the home improvement and the HBE** and wonder whether opportunities are generated because of the improvements to the dwelling or whether the income generated by the activity allows the house to be improved.
Furthermore their research questioned the relationship between home based activities and changes to the settlement and the local economy.

The findings cited in their study show that households with HBE activity have monthly incomes that exceed the minimum monthly wage by 68% as opposed to those households without HBE activity which earn 40% less than the minimum monthly wage. Alongside these positive benefits of HBE activity the authors also note that 10% of the highest incomes are recorded by households that support HBEs.

Recognising the link between housing consolidation and HBEs, they surmise that **consolidation and improvements to the house appear to be a prerequisite for HBEs.**

4.3.4 Informal sector employment and HBE activity in relation to informal business

The Ghanaian study researched by Sinai found that a quarter of the sampled households had at least one member who used their houses for income-generating purposes, including the preparation of food to sell in the house, to shops, in the market or in the street (just less than 40% of all the types of activities). Other types of activities included manufacturing other than food, operating a shop in the house or yard, repairing in the house or yard, providing services, raising livestock or growing produce, storing goods for sale later and renting rooms (Sinai 2001). **This figure of 25% of households conducting informal small business activity compares similarly to studies conducted elsewhere in the developing world** i.e. Latin America and Asia.

The **extent of informal activity is difficult to measure but that it exists and is essential to the economy is indisputable**. The informal sector in South Africa employs "**approximately 1.8 million people, or 12% of the labour force, contributing R32 billion annually, or 7% to GDP**. By comparison, agriculture employs 1.2 million people, and contributes 4.5% to GDP" (Department of Environment Affairs and Tourism, 1999).

Worldwide, **formal sector employment remains and is likely to continue to become a more remote prospect for increasing numbers of people.** An ILO study in Kenya conducted in the early 70's was among the first to note that millions of urban dwellers lacked formal jobs, therefore the viability of the informal sector is assured since somehow the poor managed to survive by eking out livings for themselves without support from the formal sector (Raheim 1996).

The literature supports the understanding that HBE activity is increasingly being recognised as a focal area of research**. Its contribution to the household income is significant and in some instances remains the sole source of income.** With the numbers of women-headed households apparently increasing, the ability of the domestic space to support women to operate is an important consideration (Gough et al, 2003).

In South Africa, **one of the constraints to operating an HBE was crime as the relative wealth displayed in the HBE acted to attract criminals.** Compared to Ghana where the external spaces could be utilised as productive spaces (produce being manufactured/left outside to dry etc), nothing could be left unguarded in Mamelodi, Pretoria (Gough et al, 2003).

May and Stavrou (1990) enter into a comprehensive discussion of **linkages of the informal sector to the formal sector** in Durban. **The existence of these linkages on the ground indicates the extent to which the informal sector is integrated into the national economy. Backward linkages involve a combination of the purchase of inputs, the investment of capital earned as wages in the formal sector, and the marketing networks of dependent or commission sellers.** It is because of these extensive linkages that the growth of the formal sector creates **a host of opportunities for the expansion of the informal sector. Forward linkages, on the other hand, show the output or market potential of the informal sector, beyond its own borders**. South African case studies have found that **very few forward linkages exist with the formal sector,** but that **backward linkages are prevalent,** suggesting that HBEs are currently dependent upon the formal sector.

4.3.5 Scaling up

The debate around whether people are 'pushed' or 'pulled' into HBEs is accompanied by another debate on whether smaller HBEs (commonly termed survivalist in South African literature and legislation) **lead to larger scale operations in the long term,** and what factors improve the chances of the upscaling of a particular activity or alternatively the ability of an individual entrepreneur to scale up and diversify.

There is some anecdotal evidence to show that people who are involved in entrepreneurial activity do follow an upward trajectory from survivalist to emergent.

In Theron (1997) the case of a textile worker is reviewed. Galiep was one of the people interviewed at their homes in a survey conducted in 1995 by Budlender and Theron. He worked as a sweeper in a clothing factory when he was 13 years old. He was a supervisor in a clothing factory some 20 years later, when he was retrenched. He used the retrenchment pay he received to set up shop in his room, producing garments for his own customers within the formal textile

industry. Galiep was able to sell as much as regulations in the textile industry would allow him to produce.

In Napier and Mothwa (2001), George's story was outlined. He traces the trajectory of his business, from a survivalist to a resilient business:

Before I came here I started by selling chickens. I bought them with the income from the cabbages. I remember when I started the business I had thirty five rands which I saved and that was my only money. And I remember withdrawing twenty seven rand and fifty cents, and two rand and fifty cents was [left] for keeping my account. And then I took the money and bought cabbages.

I came to visit my cousin and when I arrived here the car was hit by one of my cousin brothers. Therefore the money got finished and when it was finished I ask myself a question: "What is it that I know?" I found that I know mechanic work and then it is then when I started repairing cars. And when I was working I found the business very busy, and it was much better compared to that other side [the rural area] and I never went back there and I stayed here and I only go [back] to give my relatives food.
At the time of the study, George employed twelve workers and had a good relationship with them. He owned a house in a higher income suburb and he paid the bond with the income he was getting from the business.

A third case of scaling up is documented in Kellett et al (2002).

Even **within the context of the scaling up of business activities, there are patterns of failure of particular activities**. When looking at the reasons people failed in previous business attempts in Mamelodi, the most important reasons were that **not enough money could be generated by the business**, and that there were too few customers. Given the sheer number of similar enterprises in each settlement because of the lack of diversity of types of business, this is not surprising.

Snyman (1990) raised the issue of competition between HBES. In the context of discussing artisans moving out of the formal sector, in this case, and setting up their own businesses he observes: "...as the numbers of such businesses increase, competition also increases, which, together with lack of business technique, may raise doubts about the viability of many of these enterprises" (Snyman, 1990).

Another limitation to growth is that there is not only competition within the informal sector (e.g. between shops in a settlement) but also competition between the formal and informal sectors. The obvious example is the location of a low price supermarket near a previously peripheral settlement in which Spaza shops have thrived because of the absence of formal commercial infrastructure.

May and Stavrou's (1990) work reached a similar conclusion when they point out that as an **employment opportunity there is a "definite ceiling to growth"** given that about two thirds of informal businesses were one person businesses, that many people employed in the sector earned low or no wages, and that most employees were family members (only 3% were not).
In their conclusion they say "The **informal sector generates a limited and finite number of employment opportunities.** It is no magic wand for structural problems and high unemployment in the formal economy".

4.4 Environmental issues

Traditionally town planning regulations which separate work from home have as a basic motivation the possibility of harmful environmental health effects of certain activities. At the next level up, the zoning of land use is also motivated by the need to separate industrial activities with noxious emissions from areas zoned for residential use.

The initial reaction of authorities against home working is also often motivated by similar concerns, and lists of unacceptable activities are usually part of city by-laws (see section on regulatory framework above). The DFID project which viewed HBEs in four countries was centred on this issue.

In the South African case after carefully reviewing the types of activities which were typically taking place in a township and informal settlement, it was found that:

*… **the harmful effects from the wastes emanating from HBEs, and the impact they had on environmental health within the home, were fairly limited**. Within the sample, there were no extremely hazardous activities which stood out as being unacceptable to the extent that legislation should be framed to block such activities. Other than increasing and altering the contributions to informal dumping, the presence of HBEs did not significantly add to the environmental impact of the settlements in the South African case study. There are a number of reasons for this. One is that most South African HBEs, although very common, remain low scale. … Another is that there were very low levels of production HBEs, which would usually have much higher impacts…*

There were some exceptions to the observation that HBEs are not having a major impact on the external or internal environment. The collection of traditional medicines does have an impact on a national scale. What was not possible to establish from this study was whether rare plant species were being collected locally. A more focussed study would be required to ascertain this. Secondly, the level of informal dumping is cause for concern, but most contributions from HBEs to informal dumps were no more harmful than what normal households would contribute. More general investigations of sustainable forms of solid waste management are being undertaken. Thirdly, environmental health and safety is undoubtedly affected by indoor cooking using coal, wood and paraffin. Cases where children are cared for in other peoples' homes need to be better researched, as this is a common practice throughout South Africa. There are many internal dangers arising from home-based enterprise activities, but again, other than slightly increased exposure to bad indoor air quality, the situation is not exponentially different to households without HBEs.

It is very important to note that concluding that HBEs did not contribute greatly to environmental degradation, is not equivalent to stating that a) whole informal settlements are not having a significant environmental impact, nor that b) shack housing is an environmentally healthy place to dwell. What the research demonstrates is that the presence of HBEs simply highlights what

are already inadequate forms of housing and infrastructure, and that these environments are only minimally worsened by the presence of HBEs. (Napier et al, 2000)

Another paper compared the four main case studies making up the DFID study and a variety of other documented cases around the world (Tipple, 2005b). It found that:

Most HBEs are fairly benign in their environmental effects*; they do not pollute sufficiently for environmental considerations to be used as an excuse to harass them or to continue the negative attitude to their operation existing in many regulatory systems. However, there is room for improvement and this should be focused on the actual circumstances of HBEs rather than prejudices. Certainly, an analysis of wastes generated and processes used in particular areas should be a necessary precursor to any policy directed towards improving their environment. (296)*

Despite these findings, as HBEs are encouraged to scale up and are supported in doing so by bank credit and government incentives, it remains **necessary to keep a view on what types of entrepreneurial activities are suited to a predominantly residential environment**. Valuable work has been done by the Canadian International Development Agency on this issue (see Pallen, 1997).

5 HBE activity in first world settings – growth, scale, type

In spite of HBEs in first world settings differing dramatically from those that operate in the developing country context, what remains constant in all settings is the **rapid growth of this type of economic activity**. In Britain figures in 2000 showed that 1 in 10 employers employed a home based worker. This amounted to some 2 million people working partially or wholly at home which was estimated at some 4,5% of the working population. By 2003 figures were projected to nearly 30% of British workers who would be home-based, with other studies predicting some 50% of the labour force operating from their homes (Smith, 2000). British Telecoms estimated that, in 1993, 100 of their workers operated from home, whereas this had increased to 3 500 by 2000 (Smith, 2000).

Similarly in the USA, Austin in Texas set as its goal to employ 600 employees who operated from their homes at least one day a week in 2003; by 2005 this figure had risen to 10% of the total workforce of 11 000. The intention of this policy was to reduce air pollution caused by commuter traffic by reducing vehicle miles travelled by employees by 15% over a 5 year period (Ursery, 2003).

The US Office of Personnel Management identified home based employment as the tool to improve personnel management of the workforce (Joice, 1991), and estimated that the number of people being employed from their homes would be 25 to 40 million. This study identified **numerous reasons for this massive growth** and shift from the employers' base to the home including:

- the **technology** supporting this move;
- **sociological trends** such as an increase in single-parent families, 70% of HBE population being of child-bearing age; decrease from 70% to 45% of families with single wage earner and stay-at-home parent, which resulted in the necessity to reconcile the needs of wage-earners, parents and family;
- **changes in the birth rate** resulting in a reduced number of job candidates, employers consequently needing to find flexible ways to increase the labour pools;

- **psychological trends**, including worker's growing concern and involvement with issues beyond the job; and
- necessity for employers to become **more competitive** resulting in decentralising, reducing their real estate, facility management and overhead costs (Joice, 1991).

In 1994 the Wall Street Journal reported on the boom in home businesses and how franchise chains were trying to cash in on the growing market (Tannenbaum 1994).

This growth was also reflected in Australia which notes the home based employment of accountants and its rising trend generally. The study goes on to measure the success of this type of activity in terms of its staff retention, improved productivity, job satisfaction and employee morale (Walters 2004).

6 Case study: perceptions of credit in Mamelodi

The study of home-based enterprises in Mamelodi has been referred to. It formed part of a worldwide study funded by DFID and managed by the University of Newcastle upon Tyne. The qualitative part of the study identified 30 operators and undertook in depth interviews with them across a range of themes. The use of credit was one of the themes. The following material is presented as a case study of the use of credit for home-based enterprises in a township situation.

Although there was focused questioning in the DFID study on HBEs, it was found that **very few (3.4%) of operators (of 157 interviewed) had accessed credit** to directly assist with their entrepreneurial activities. It is not surprising given the very small scale nature of businesses, but in light of reasons for failure of previous businesses, credit could nevertheless **play an important role especially if accompanied by business training.**

	HBE operators Home	HBE operators Business	Non-HBE operators
None	96.0	96.6	97.1
Bank	2.0	-	2.9
Employer/Supplier	2.0	-	-
NGO	-	3.4	-
	100.0	100.0	100.0

Source of loans raised for home and business use (percentage frequencies)(Coulson et al, 2001)

In contrast 38% of Bolivian HBEs had accessed credit. In India and Indonesia informal loans were very common, with very high interest rates.

Qualitative interviews showed that there was a high level of **mistrust of formal credit**, and that some of these perceptions were based on negative experiences or on perceptions about interest. The following direct quotations were recorded when people were asked to talk about credit. They illustrate the point.

A traditional healer:

"Information they tell you about the money which gives birth [i.e. attracts interest] when you have taken it up, and then that money frightens me, because when you take twenty rands it must come back having given birth. So that kind of money is making you fall down. It does not improve your business. It means when you can take days it also goes up, so I never got interested".

Spaza shop owner:

"They [credit schemes] are available but I never joined any of them, and by that time I was only selling paraffin, and when you repay it you must add some money on top, so I found it very difficult for me… and you will find that children want food and clothes while on the other hand people demand credits…"

Small chicken farmer:

Interviewer: "So tell me, do you know of any credit schemes?"

"Yes, mama has once taken up one and she was lent R500 and paid back double the amount… We have been robbed; I don't want to see it anymore… I would rather suffer than take it again. If I can just get a small bag of oranges I will sell it and buy bread, do you see…"

The form of credit the few Mamelodi operators had accessed was mostly through retail lenders backed by the Khula Foundation. The form of the loan was usually to groups of people who took joint responsibility for repayment (modelled on Asian best practice).

Tuckshop owner, Extension 5

"…we had to be five and some members would just tell you that they do not have money when you have to take the money to Get Ahead [the retail lender] and I would take the one I was supposed to buy stock and pay for her…"

Interviewer: "What would they do if you never paid them?"

"They would arrest us, a bad record in my identity book, so I will rather suffer…"

Sheepshead chef:

"If I borrowed [money] how would I pay it back because I do not want to get myself into troubles because if you lend money you must be having moneys at the bank so I have nothing in the bank and the bank does not even know me"

The evidence was statistically thin because of the very low incidence of any sort of relationship with formal lending agencies, however the interviews revealed the current perceptions and misconceptions that prevail. In contrast, in Bolivia group loans were common and were generally viewed positively. The South African finding may therefore be more related to the novelty of the product and the way in which it has been managed than to inherent weaknesses in the group loan system.

According to Coulson et al (2001): "Cross et al (2001) found that households in which **one partner has a wage income are best placed to run HBEs.** Having a regular income allows the household to put in starting capital, buy capital equipment, and generally cross-capitalise the HBE from the wage income. They are also insured against a temporary collapse in the cash flow from the business itself, which could otherwise destroy the HBE".

More common was the credit relationship between the operator of an HBE and their customers. One reason cited for the failure of previous businesses was that too much credit was extended to customers who then did not repay thereby ultimately affecting the viability of the business. In another interesting case, shebeen owners were said to freely extend credit to neighbours so that the relationship with the owner thus established would prevent formal complaints about the operations of the shebeen by the neighbours.

The next level of financing would relate to **the need for credit to improve the house** to support the business, as provided by organisations such as the Rural Housing Loan Fund. The table

above shows that this accounted for another 4% of operators accessing finance. Essentially this is an indirect form of credit and many such formal lenders see the use of such monies directly for business (e.g. purchasing stock or equipment) as 'leakage' from its intended use, i.e. for building on rooms.

7 Conclusion

The literature on HBEs reveals **a complex set of relationships between house, entrepreneurs and work**. As has been previously documented (Napier and Mothwa, 2001), conclusions can be reached about what this would mean for advisable interventions especially in the South African context:

- **greater diversity could be stimulated** especially in the service and production areas which are very under-developed;
- **the backward linkages** of HBEs from the formal sector could be **developed and strengthened.** The incidences of outworking, for example, are very low compared to other parts of the world;
- similarly, **forward linkages** are almost non-existent in South Africa (e.g. few people sell products or services into the formal sector or beyond their own neighbourhood boundaries) and need to be established. This drives the scale and diversity of HBEs in other countries;
- **access to micro-finance** could be greatly improved. The raising of awareness around access to finance, and knowledge of the types of conditions that come with such schemes, is an area that needs to be actively supported;
- **access to business training and skills** is also needed, and would go a long way to assisting people in the management of home-based enterprises and the diversification of the types of enterprises that are chosen;
- finally, **levels of infrastructure** services in settlements are key in stimulating HBEs. The ongoing investment in infrastructure and the securing of tenure are essential for the creation of a supportive environment for home-based enterprises, but as in any informal process, such formal interventions will also disrupt many people's livelihoods.

When looking at home-based enterprises at a settlement level, a productive combination of activities would be characterised by diversity of activities, a mix of scales of activity, and useful services being provided in the settlement as a whole, and that there was some understanding from the **planners of settlements that even residential areas should not be dormitories but should accommodate or facilitate economic activities.**

The fact that current programmes have replicated peripheral, dormitory, mono-use townships has made it all the more difficult for entrepreneurs to operate. It does not help to romanticise the entrepreneurial activity while at the same time making it all the more difficult for operators to break out of survivalist enterprises.

However, **the state is not always the ideal partner to entrepreneurs** wishing to establish themselves. As some commentators have put it (Rogerson, Strassman, Gilbert**), parts of the informal sector are best left alone.** The key to interventions is a well informed understanding of local economic development (including common patterns of livelihood strategies), and the point at which growing scales of entrepreneurial activity can benefit from formal inputs. A full understanding for existing patterns of entrepreneurial activity is needed for this.

It is clear that South African HBEs are very common, but small in scale, and that the diversity of activities is very limited. The **use of credit is almost non-existent** and, based on the cited records, perceptions of what the use of formal credit might mean for operators are jaundiced to say the least. This might be indicative of the lack of exposure of most people to the kinds of products being developed as part of the FinMark investigation of housing entrepreneurs.

In the context of the predominant forms of housing stock on urban peripheries in South Africa, from the literature reviewed one **could suggest that the use of home as collateral to support business growth is largely unheard of**. If the emphasis of the research is shifted to scales of entrepreneurship which are larger than the norm, it is possible that the use of the house as collateral would be more common.

8 Key findings

This report focuses on **home-based enterprises comprising income generating activity that takes place in the home or uses the home as a base to work from**. The report is based on a review of international and national literature, with an emphasis on developing country studies, and available sources in South Africa. The report covers the regulatory environment for HBE in South Africa, physical, social and economic factors affecting HBE's, linkages and scaling up.

1. **Definition and characterisitics:** In South Africa HBE's are predominantly informal in nature and survivalist in scale. In spite of their survivalist nature they commonly provide the only source of income to households and should not be discounted simply because they appear to generate minimal incomes.

   The study of home-based entrepreneurship in South Africa has emphasized **the smaller scale operations which predominate in many township areas** (May and Stavrou, 1990, Rogerson, 1991, Budlender and Theron, 1995, Theron, 1997 and Snyman, 1990**). The estimates of the incidence of HBEs in South African settlements vary widely** including:

   - Rogerson in 1991 estimated one in every five households
   - Budlender and Theron estimated at least one HBE in seven out of ten households or 65% of the settlements studied.
   - Napier and Mulenga in 1999 in a settlement in Pretoria estimated 22%
   - Napier et al in 2000 in a study in Mamelodi determined 34% in an unserviced settlement and 44% in a serviced settlement.

   Conceptually the three main components of HBE are:

   - <u>the house</u> which, in this study, is seen as the premises for the business and, at times, as some kind of security for accessing credit, or as playing a role in the mode of production. The house is then located in the broader spatial context of settlement and city;

- The work, or the entrepreneurial activity which generates income of some kind. The work is set in the context of by-laws, regulations, laws governing business compliance, and the broader economy; and
- The entrepreneur, or operator of the HBE, who functions in relationship to customers and employees or family members who assist, and who has varying degrees of access to business training and entrepreneurial advice and knowledge.

HBE's are generally classified as follows:

- Service oriented for example hair salons, mechanics, traditional healers, taxi owners, shebeen operators
- Retail oriented for example spaza shops, frozen food retailers
- Production oriented for example fence and gate manufacturers, clothes makers, preparing food
- A mixture of these for example a traditional healer who make medicine, see patients etc.

Home businesses receive some criticism from (at least) three perspectives.

- Firstly, some activities are deemed too **noxious or nuisance-generating** for residential areas. An international study of this aspect (Coulson et al, 2001) demonstrated that this was rarely the case and that self-regulation and good sense often limited potentially dangerous activities. This implied that over-bearing urban zoning regulations which attempt to limit some activities are rarely useful or applicable, although it is important that there be avenues for residents to object should problems arise.
- Secondly, there are concerns that there is **exploitation of labour.** In South Africa, with very low levels of production activity and very small numbers of people employed, the typical informal 'sweatshops' rarely occur and the scale of labour exploitation is thus limited.
- Thirdly, there are concerns that business activity will **overload existing infrastructure** (energy supply, water supply, sewers, solid waste removal). Again this kind of overloading rarely materialises from the levels and types of enterprise

seen in this country (Napier et al, 2000) and high levels of housing consolidation have not led to significant breakdowns of urban infrastructure as has occurred in a range of other countries (Tipple, 2000).

Home businesses are appropriate for accommodating certain types of business activities and have a relative advantage over formal business premises. Closer relationships with the local customers and relationships of trust (which impact on customer loyalty, and on informal extension of credit) are easier to nurture in the home-based enterprise situation.

Employing people within the family is a key advantage (and sometimes a source of subtle exploitation) of home-based enterprise

The themes which are emphasised in the housing literature include the relationship between the following aspects:

- tenure type and HBE activity,
- location in city and within settlement and HBE activity
- length of time in house or settlement and HBE activity
- housing type (including, material, size, etc) and HBE activity
- amount of individual input into the house and HBE activity
- infrastructure and HBE activity

2. **Regulatory framework:** As detailed above the regulations governing home based enterprises, like many other regulations in South Africa, reflect the history of separation that existed in the country for many years. There are efforts at city level to streamline the regulations. The regulatory framework has limited the emergence of significant scales and diversities of home based enterprises in South African townships.

   The state is not always the ideal partner to entrepreneurs wanting to establish themselves. As some commentators have put it (Rogerson, Strassman, Gilbert), parts of the informal sector are best left alone. Rogerson quotes Strassman and Gilbert as saying that the best approach on the part of authorities is to stop 'harrassing' HBE's. Rogerson suggests the following five policy recommendations for HBE's in low income settlements:

   - **neighbourhood councils** should regulate dangerous or nuisance HBES;

- **planning regulations** should support mixed use and retail sites in residential areas;
- **infrastructure** (water, electricity, sanitation and roads) should be improved to support HBES;
- **credit and secure tenure** should be extended wherever possible;
- **policy** applying to HBEs should be flexible and responsive to changes in the sector.

The urban residential setting in which home based enterprises occur is key in understanding the current patterns of entrepreneurial activity. In South Africa the relationship between urban location is historically linked to what kinds of activities were permitted in regulatory terms. As a lingering legacy of past planning practices, different parts of the city are zoned in different ways, and thus different sets of regulations and by-laws pertain to them. Most South African cities and towns are in the process of drafting, or have drafted, new regulations governing the use of housing which give more consistent rights to all urban residents. Factors which have an impact on HBE's include:

- The level and type of housing intervention that has taken place.
- The level of servicing
- Density of housing and population
- Profile of the population
- Location of the settlement and its proximity to other facilities.
- Changes in legislation
- Changes in political leadership
- Changes in the economy
- Changes in society for example attitudes to women
- Crime (particularly in South Africa)

3. **Physical, social and economic issues:**

Physical issues: From a physical perspective, the space (in the house and on the site) used for business varies depending on culture and the nature of the built environment. In Asia,

the dual use of space for living and for business is common and accepted, whereas in some African countries studied the mixing of space use is seen as an inconvenience. This was supported by the findings of the FinMark study.

International studies also show that houses which are consolidated or extended to accommodate business activities result in higher incomes being derived from the entrepreneurial activity (there is a direct symbiotic relationship between business income and housing consolidation). As significant, if not more so, is the location of residential units relative to passing customer traffic.

Other underlying (physical) factors which affects the type of business, and its scale and growth, is access to basic services (water, energy, sanitation) and the security of tenure that business operators have over the property they trade or offer a service from.

One concern for planners is the harmful environmental health effects of HBE's. In South Africa it has been determined that the harmful effects from the wastes emanating from HBE's, and the impact they had on environmental health within the home is fairly limited. This could be due to the fact that HBE's remain low scale with very low levels of production. Despite this if HBE's are encouraged to scale up it is necessary to keep a view on what types of entrepreneurial activities are suited to a predominantly residential environment.

Social and economic issues: In terms of demographic factors, the more successful business operators (in the small scale, home-based enterprise context) are people who have had access to education, those with access to finance, and those who have taken the initiative to start their own businesses (as compared to people unwillingly/ unwittingly pushed into the situation). There is an ongoing debate in the literature about whether growth in the home businesses sector is driven by:

- people being retrenched from the formal sector, or
- People consciously choosing to be self-employed because of logical advantages they have identified up front.

The situation varies according to macro- and micro-economic factors, not to mention cultural factors which often influence the types (and diversity) of businesses which operate in different countries and societies.

Access to finance: Although the studies were not fully focused on issues of credit and finance for home enterprises, there is qualitative evidence from several studies that indicated wariness on the part of operators of entering into formal credit arrangements. The general lack of availability of appropriately tailored financial products meant that people's experiences of credit for home business were necessarily limited.

The Table below provides an overview of the key physical, social and economic factors that either facilitate or inhibit home based entrepreneurial activity.

Table 1: Overview of the key physical, social and economic factors

	Facilitators	**Inhibitors**
Physical factors	- Space in house - Access to services - Location - Security of tenure	- Limited space available -Harmful effects of waste from business operations
Social	- Education - Inititiave and willingness - Retrenchement from previous work	- Unwillingly pushed into enterprise
Economic	- Access to finance	- Lack of appropriately tailored financial products

4. **Linkages and scaling up:** The extent to which linkages on the ground exist between the informal and formal sector indicates the extent to which the informal sector is integrated into the national economy. Backward linkages involve a combination of the purchase of inputs, the investment of capital earned as wages in the formal sector and the marketing networks of dependent or commission sellers. Forward linkages show the output or market potential of the informal sector beyond its own borders. South African cases studies have found that very few forward linkages exist with the formal sector, but that backward linkages are prevalent, suggesting that HBE's are currently dependent upon the formal sector.

5. **Scaling up – a ladder of growth:** There is some anecdotal evidence that shows that people who are involved in entrepreneurial activity do follow an upward trajectory from

survivalist to emergent. However even within the context of the scaling up of business activities, there are patterns of failure of particular activities. Reasons for failure include not enough money could be generated by the business and there were too few customers. Another limitation is that there is not only competition within the informal sector but also competition between the formal and informal sectors. May and Stavrou's (1990) determined that there is a definite ceiling to growth. The informal sector generates a limited and finite number of employment opportunities.

South African home businesses have remained small also because of real regulatory barriers to economic activity in the past, and real and perceived barriers which still pertain (e.g. unsupportive by-laws and zoning regulations, and licensing limitations).
Anecdotal evidence cited in this paper shows there are cases where individuals are able to scale up their business activities over time as experience is accumulated and as opportunities (both informal and formal) arise. However, this scaling up often involves individuals changing the nature of their business activities and finding their niche in very opportunistic ways. Where formal inputs assist in this scaling up process is where people use the skills they gained in the formal job sector to continue in the informal sector (e.g. sewing skills in the textile sector).

6. **Conclusions:** Greater diversity could be stimulated especially in the service and production areas which are very under-developed. The backward linkages of HBEs from the formal sector could be developed and strengthened (the incidences of outworking, for example, are very low compared to other parts of the world).

   Similarly, forward linkages are almost non-existent in South Africa (e.g. few people sell products or services into the formal sector or beyond their own neighbourhood boundaries) and need to be established; access to appropriate forms of micro-finance could be greatly improved. The raising of awareness around access to finance, and knowledge of the types of conditions that come with such schemes, is an area that needs to be actively supported. Access to business training and skills is also needed, and would go a long way to assisting people in the management of home-based enterprises and the

diversification of the types of enterprises that are chosen. Finally, levels of infrastructure services in settlements are key in stimulating HBEs.

The ongoing investment in infrastructure and the securing of tenure are essential for the creation of a supportive environment for home-based enterprises, but as in any informal process, such formal interventions will also disrupt many people's livelihoods.

7. Appendix A: classifications of HBEs

Excerpt from University of Newcastle upon Tyne four country study on home-based enterprises. Environmental Effects of Home Based Enterprises, Department for International Development, DfID Research No. R7138, 1998-2001. Used with permission: Dr A G Tipple, 17 May 2005.

Classifications

Raj and Mitra (1990), writing of India, subdivide HBEs hierarchically as follows:

a) HBEs that require no skill or little skill.
   These include sewing and knitting (mainly done by women), petty retailing (mainly done by women and children) and renting, particularly to very impecunious individuals.
b) HBEs that require some skills or resources.
   These include renting to households with some income, small retailing, tailoring, repairing of cycles.
c) iHBEs that are either entrepreneurial or require moderate to high levels of skills and/or resources.
   These include services with higher skills (general medical practitioner, dentist), full fledged retailing with adequate storage and inventory, and renting for even better off households (Raj and Mitra, 1990).

Their work found that each of the HBE's are linked to particular income groups and movement of households up through the hierarchy is not common (Raj and Mitra, 1990).

In a research project undertaken in Medellin, Colombia (Cehap-Peval, 1986) quoted by (Mesa, 1990) HBEs were classified according to their use of space as follows:

- Window sales: a household dedicates a small amount of capital to undertake minor retail sales via an existing window, without any change in the internal or external spatial organisation of the dwelling.

- Small shop: a front room is used for a retail sales but the shop and dwelling area share the same access; this type of activities may generate sufficient income to support a household, and/or provide work for various members.
- Independent shop or workshop: independent of the dwelling, it may either be used by the household or let, for retailing, services or small scale production.

In a study of mainly home-based small-scale enterprises in Hyderabad, India, Seshachalam and Rao (1987) also classified them according to their use of space:

- a shopping front with a residential dwelling in the backyard;
- a dwelling unit in the front with a workplace in the backyard;
- the ground-floor as a business place, with upstairs as a residential unit;
- the ground-floor as a residential unit with the first floor as business space;
- a rental residence and owned shop;
- owned house and a rental business space;
- owned house and an encroached business space;
- owned business space with encroached kutcha (poorly built) or semi-permanent residential structure.

In Strassmann's (1986) Lima study, HBEs are classified in terms of their effect on the neighbourhood environment. He found that, in peripheral and less costly neighbourhoods, more intrusive uses could be operated than in more central and expensive neighbourhoods. In the informal areas known as "popular urbanisations", there was space around the houses, good access to public utilities and many skilled workers. Thus, messy and noisy manufacturing which would not be popular in denser neighbourhoods could set up and flourish. Such uses as making furniture, metal and leather working were present there but they are also concentrated in the type of small permanent dwellings on alleys or in courtyards known, in Peru, as callejones. In inner-city quintas , manufacturing tends to be "lighter", of a kind which can be carried out in upper storeys. In conventional neighbourhoods, the HBEs which survive tend to have a city-wide clientele and to be quite higher earners.

His classification generates the following as the most frequent:

- Nearly half the HBEs were in the retail trade and these were disproportionately located in pueblos jovenes and depended on lack of access of operators to job opportunities and of buyers to better shopping possibilities
- Second came the manufacture of clothing, and this went on especially in conventional neighbourhoods and in the quintas and callejones .
- Selling manufactured goods to businesses was generally much more profitable than work in the formal sector. They depended on access for their success.
- Personal services were important home businesses in pueblo jovenes.
- Manufacturing of 'sturdy' products (footwear, furniture, and metal goods) occurred in 'popular urbanisations' where there is both space and good access.
- Serving food or drinks,
- Renting rooms,
- Dispensing health services,
- Making repairs of many types.

The last four were more common in conventional/standard neighbourhoods, probably as a function of income density creating demand for such services (Strassmann, 1986).

Gough and Kellett (2001) found a wide range of home-based enterprises in the settlements they studied independently in Colombia. They differentiated firstly between those are small scale, part-time extensions of everyday domestic activities (preparing food, sewing, looking after children, selling cold drinks from the fridge) and those that are much larger in scale using special equipment in defined spaces and perhaps employing a number of people who are not members of the household. They then identified five basic types of activity:

- Activities related to the plot itself: e.g., growing plants; rearing hens; playing outside games (and consuming beer); and using plots as 'car parks'.
- Making or repairing things: e.g. vehicles, shoes, furniture, garments to order; preparation of food for selling elsewhere.
- Selling: e.g., general stores (which may double as bars), small-scale sale of drinks, sweets and ice lollies, lottery/chance tickets.

- Service activities: e.g., hairdresser, dental technician, giving injections, washing and ironing clothes.
- Activities of a more social/community nature: e.g. schools, nurseries, primary health care etc.

In their work in different residential areas in South Africa, Cross et al (2001a) use the three broad sectoral categories of retail distribution, production and services. They find that their distribution differs between the shack settlements and the formal townships (housing estates). In the shack areas, 63 per cent were in retail distribution, compared to 50 per cent in the higher income townships. They notice that, as area income levels rise, both production and services expand in response, they aver, to the availability of discretionary spending.

They note that, in the lowest income areas, spending in HBEs is tightly limited to basic needs lines; a narrow range of commodities needed for daily living, including the need to socialise. The latter maintains important relationships and provides social insurance. There are some 'elective' or 'preferential' lines in addition; the sale of fresh produce, some crafts, particularly sewing, and traditional healing. In the formal townships, where residents can afford a more sophisticated lifestyle, both the services and production sectors increase their market share. Here the range of 'elective' or 'preferential' lines is greater and includes higher-value, more skilled activities for which there is no market in the shacks. They include block making and construction, hiring of tents and party equipment, selling food to schoolchildren, and at least twice as much sewing.

Cross et al (2001a) also differentiated HBEs that start with little or no capital from the rest. They call them 'bootstrap starts'. They can involve either the cheap entry lines; selling matches or boiled eggs, single cigarettes or single bottles of beer, or they can use resources found free of charge in the urban area, e.g., discarded plastic bags or scrap metal from dumping sites. They are the ones most likely to be crippled by lack of capital and rarely manage to produce more than a subsistence income.

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